

# **PUBLIC DISCLOSURE**

**September 12, 2006**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**FirstBank Puerto Rico  
30387**

**1519 Ponce de Leon Avenue, Stop 23  
Santurce, Puerto Rico 00908**

**Federal Deposit Insurance Corporation  
20 Exchange Place  
New York, New York 10005**

**NOTE:** This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **FirstBank Puerto Rico** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **September 12, 2006**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## **INSTITUTION RATING**

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

A CRA rating of "Satisfactory" is assigned. An institution in this group has a satisfactory record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. This rating is based on the following factors.

### **Lending Test**

- The bank's volume of lending reflects good responsiveness to the credit needs of the assessment area.
- A substantial majority of the bank's lending is within its designated assessment area, which comprises the entirety of Puerto Rico and the U.S. Virgin Islands.
- The geographic distribution of the bank's HMDA lending reflects good penetration throughout the assessment area, especially among low- and moderate-income census tracts. Distribution of small business loans also reflects good distribution, and is comparable to other commercial lenders on the island. Consumer lending reflects excellent penetration, exceeding all comparative factors.
- The distribution of the bank's HMDA loans reflects poor penetration among both low- and moderate-income borrowers. Consumer lending, which demonstrates the bank's strongest penetration among low- and moderate-income borrowers, reflects excellent performance in both 2004 and 2005. Small business lending also exhibits good penetration of loans both by loan size and businesses of different income levels.
- The bank has an outstanding record of community development loans, having originated 43 loans totaling more than \$300 million.
- The bank continues to offer a limited level of innovative or flexible loan products, an area in which the bank needs to improve its performance.

### **Investment Test**

- The bank has assembled a significant level and variety of qualified community development investments, along with a substantial volume and amount of qualified donations.

### **Service Test**

- The bank's retail delivery systems are accessible to essentially all portions of the assessment area including low- and moderate-income geographies.
- The bank opened five new branches since the previous evaluation and closed two, while relocating one branch.
- The bank continues to offer several alternative delivery systems to essentially all portions of the assessment area.
- Business hours are reasonable, including new Sunday hours at some locations, and are tailored to the convenience and needs of the assessment area.
- The bank has taken a leadership role in providing community development services throughout the island of Puerto Rico and the Virgin Islands.

**LENDING, INVESTMENT, AND SERVICE TEST TABLE:**

*The following table indicates the performance level of the institution with respect to the lending, investment, and service tests.*

PERFORMANCE LEVELS	FirstBank Puerto Rico		
	PERFORMANCE TESTS		
	Lending Test	Investment Test	Service Test
Outstanding			X
High Satisfactory	X	X	
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

## **PERFORMANCE CONTEXT**

### **DESCRIPTION OF INSTITUTION:**

FirstBank Puerto Rico (FBPR) is a full service banking institution, headquartered in Santurce, Puerto Rico, and is the island's second largest bank. The bank operates 57 branches throughout Puerto Rico and the United States Virgin Islands. There is 1 branch located in a low-income census tract, 13 branches are located in moderate-income census tracts, 17 branches are located in middle-income census tracts, and 26 branches are located in upper-income census tracts. The bank's main office is located in an upper-income census tract. FBPR opened five new branches since the prior evaluation, closed two branches and relocated one branch. Three of the new branches are located in middle-income census tracts and two are in upper-income census tracts. One of the closed branches was in a moderate-income census tract, while the other branch was in an upper-income census tract. In addition, MoneyExpress operates 36 branches throughout the island.

FBPR is a subsidiary of First Bancorp, San Juan, Puerto Rico. FirstMortgage is a subsidiary of FBPR, while MoneyExpress is a subsidiary of First Bancorp.

The bank's main lending focus remains residential mortgages and consumer lending; however, construction and land development lending has seen a dramatic growth over the past several years, from 5 percent in 2003 to more than 15 percent in 2006. Currently, residential real estate loans represent approximately 23 percent of the loan portfolio, down from 38 percent in 2003. Commercial loans represent 30.8 percent of the loan portfolio, down from 35.5 percent. Consumer loans represent 17.1 percent, also down from approximately 18.3 percent at the prior evaluation.

As of June 30, 2006, the bank's total assets are \$19.4 billion. This reflects a 62 percent growth over the previous evaluation period. Loans total \$10.1 billion and represent approximately 52 percent of total assets and approximately 79 percent of total deposits. U.S. Government obligations, Collateralized Mortgage Backed securities, and state and municipal securities comprise the bulk of the investment portfolio, which in total represents \$8.5 billion or 44 percent of total assets. The remaining \$0.8 billion, or 4 percent, of total assets are concentrated in cash, federal funds, and other assets. Deposit accounts total \$12.8 billion and represent approximately 67 percent of all liabilities and capital. Total equity capital of \$1.3 billion (7 percent), and other borrowings of \$5.1 billion (26 percent) comprise the remainder.

The following table (Table A) represents the distribution of the bank's loan portfolio:

<b>Table A – Loan Distribution as of 6/30/2006</b>		
<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	\$1,517,954	15.2%
Secured by Farmland	\$0	0.0%
1-4 Family Residential	\$2,266,111	22.7%
Multi-Family (5 or more) Residential	\$23,081	0.2%
Commercial	\$1,563,219	15.6%
<b>Total Real Estate Loans</b>	<b>\$5,370,365</b>	<b>53.7%</b>
Depository Institutions	\$139,943	1.4%
Commercial and Industrial	\$1,517,646	15.2%
Agricultural	\$1,038	0.0%
Consumer	\$1,704,914	17.1%
Loans to Governments	\$64,096	0.6%
Other	\$873,836	8.7%
Lease Financing	\$326,018	3.3%
Less: Unearned Income	\$0	0.0%
<b>Total Loans</b>	<b>\$9,997,856</b>	<b>100.0%</b>

*Source: Call Report RC-C.*

The bank has a Tier 1 leverage capital ratio of 11.36 percent and a Return on Average Assets (ROAA) of 0.31 percent as of June 30, 2006. The bank's peer group ROAA is 1.27 percent, placing FBPR in the 3rd percentile for all commercial banks with assets in excess of \$3 billion. Tier 1 leverage capital measures the level of the institution's core capital as a percent of total assets. ROAA measures the institution's net income as a percent of average assets. Net income for year-end 2005 was \$168.2 million. Net income, as of June 30, 2006, was \$30.2 million.

There are no impediments legal, or otherwise, which would impact the bank's ability to help meet the credit needs of the assessment area.

FirstBank Puerto Rico was rated "Satisfactory" at the previous CRA evaluation performed by the FDIC as of October 21, 2003.



## **DESCRIPTION OF FIRSTBANK PUERTO RICO'S ASSESSMENT AREA(s):**

For description purposes, this assessment area is defined using 2000 census data and 2004 Metropolitan Statistical Areas (MSAs) and Non-Metropolitan Statistical Areas (non-MSAs).

FBPR has defined its assessment areas as the entire Commonwealth of Puerto Rico, as well as the three islands of the United States Virgin Islands (USVI). The area in Puerto Rico consists of 823 census tracts in 78 municipalities throughout eight MSAs and one non-MSA area encompassing the entire island of Puerto Rico. There are three Consolidated Statistical Areas (CSAs) in Puerto Rico each containing two Metropolitan Statistical Areas (MSAs). In addition, there are two MSAs that are not part of a CSA and one area that is not part of a CSA and also not in an MSA. In the USVI there are 32 census tracts, none of which are in a MSA.

These assessment areas are as follows:

### **Assessment Area #1 – Consolidated Statistical Area (CSA 490)**

This area contains all municipalities within MSA 41980 (San Juan) and MSA 21940 (Fajardo). According to the 2000 census data, the assessment area consists of 18 (3.3 percent) low-income census tracts, 154 (27.9 percent) moderate-income census tracts, 215 (38.9 percent) middle-income census tracts, and 165 (29.9 percent) upper-income census tracts.

### **Assessment Area #2 – Consolidated Statistical Area (CSA 364)**

This area contains all municipalities within MSA 32420 (Mayaguez) and MSA 41900 (San German). According to the 2000 census data, the assessment area consists of 1 (1.8 percent) low-income census tract, 8 (14.6 percent) moderate-income census tracts, 35 (63.6 percent) middle-income census tracts, and 11 (20.0 percent) upper-income census tracts.

### **Assessment Area #3 – Consolidated Statistical Area (CSA 434)**

This area contains all municipalities within MSA 38660 (Ponce) and 49500 (Yauco). According to the 2000 census data, the assessment area consists of 2 (2.3 percent) low-income census tracts, 22 (24.7 percent) moderate-income census tracts, 39 (43.8 percent) middle-income census tracts, and 25 (28.1 percent) upper-income census tracts. This area also includes one (1.1 percent) census tract for which no demographic data is available, usually the result of limited or no population.

### **Assessment Area #4 – Metropolitan Statistical Area 10380 - Non CSA Area**

This area contains 8 municipalities within MSA 10380 (Aguadilla) which is not part of a CSA. According to the 2000 census data, the assessment area consists of 8 (12.5 percent) moderate-income census tracts, 49 (76.6 percent) middle-income census tracts, and 7 (10.9 percent) upper-income census tracts. This area does not have any low-income census tracts.

### **Assessment Area #5 – Metropolitan Statistical Area 25020 - Non CSA Area**

This area contains 3 municipalities within MSA 25020 (Guayama) which is not part of a CSA. According to the 2000 census data, the assessment area consists of 12 (80.0 percent) middle-income census tracts and 3 (20.0 percent) upper-income census tracts. This area does not have any low-income or moderate-income census tracts.

### **Assessment Areas #6 – Non CSA Area/Non MSA Area**

There are 10 municipalities in Puerto Rico that are not within MSAs. These areas are commonly referred to as “Non-MSA areas.” According to the 2000 census data, the assessment area consists of 6 (12.5 percent) moderate-income census tracts, 35 (72.9 percent) middle-income census tracts, and 7 (14.6 percent) upper-income census tracts. This area does not have any low-income census tracts.

According to the 2000 census, the total population of the entire assessment area within Puerto Rico is 3.8 million. Of the total population, 77,594 people (2.0 percent) reside in low-income census tracts, 869,301 (22.8 percent) in moderate-income tracts, 1.8 million (49.1 percent) in middle-income tracts, and 991,549 (26.0 percent) in upper-income tracts. There are 2,029 (0.1 percent) people that reside in the one census tract for which demographic information is not available.

### **Assessment Area #7 – USVI/Non MSA Area**

The U.S. Virgin Islands consists of three separate islands, St. Croix, St. Thomas, and St. John. According to the 2000 census data, the assessment area consists of 3 (9 percent) low-income census tracts, 4 (13 percent) moderate-income census tracts, 15 (47 percent) middle-income census tracts, and 10 (31 percent) upper-income census tracts.

According to the 2000 census, the total population of the entire assessment area within USVI is 108,612. Of the total population, 11,494 people (10 percent) reside in low-income census tracts, 14,843 (14 percent) in moderate-income tracts, 51,205 (47 percent) in middle-income tracts, and 31,070 (29 percent) in upper-income tracts.

## **Economic Overview**

The following information was obtained from the FDIC’s Division of Insurance and Research:

### General

Puerto Rico’s economy has been challenged by a budgetary crisis. The Commonwealth’s public sector, which accounts for 30 percent of total employment in Puerto Rico, reached a breaking point in May of this year. Puerto Rico’s jobless rate is holding at 12 percent, over twice the mainland figure.

A fiscal year 2006 budget gap in excess of \$700 million was the impetus for Puerto Rico's impromptu 100,000 worker layoff in early May. The administration was able to secure an emergency \$741 million loan from the Government Development Bank and reinstate most employees through the end of the fiscal year, but the quick fix solution was too late to prevent a ripple effect that still has retailers, government and residents all a little skittish. At the very least, this budget catastrophe will force Puerto Rico to finally execute a plan to retrench its bloated public sector, but with the Island's private sector and a sizeable underground economy, displaced workers face a tough road ahead.

Growth in the Puerto Rican economy will suffer on the back of imminent public sector layoffs, but when the government is able to stabilize itself at a sustainable level, performance will likely improve substantially. The problem lies in the Commonwealth's ability to make meaningful steps toward recovery and how quickly and seamlessly a plan can be put into place. Still, if successful, Puerto Rico's long-term economic potential is strong. For these reasons, Puerto Rico will be a mixed performer over the forecast horizon.

The largest employers, by industry, are the government (29.3 percent); manufacturing (11.1 percent); professional and business services (10.0 percent); education and health services (9.5 percent); leisure and hospitality services (6.9 percent); construction (5.3 percent); financial activities (4.7 percent); information services (2.2 percent); other services (2.0 percent); and transportation/utilities (1.7 percent). Top employers include Popular Inc. (11,334), Puerto Rico Telephone (5,800 employees), University of Puerto Rico (5,558 employees), Sara Lee Corporation (5,424 employees), Caribbean Restaurants (4,875 employees), Baxter International, Inc. (4,000 employees), Johnson and Johnson (4,000 employees), Wal-Mart Stores, Inc. (3,778 employees), Caribe GE Products, Inc. (3,600 employees) and Inter American University of P.R. (3,486 employees).

Virgin Islands' economy continues to struggle, as employment levels are declining. Public service employment, which accounts for approximately 30 percent of the jobs in the territory, has also shown signs of declining. Tourism remains the major activity on the islands, and with continued private sector construction projects, economic activity is expected to improve by year end. Construction activity is primarily centered on hotel construction, upgrading and expansion of roads, and the development of commercial and residential properties. The ongoing construction of a de-sulfurization plant has resulted in the creation of several hundred jobs. Financial services, which have had several years of strong growth, are showing signs of declining, primarily due to pending rulings on tax policies that affect some designated service companies.

The largest employers, by industry, are the government (28.0 percent); leisure and hospitality services (16.3 percent); professional and business services (7.8 percent); financial activities (5.8 percent); other services (5.4 percent); manufacturing (5.1 percent); education and health services (5.0 percent); construction (5.0 percent); ); transportation/utilities (3.9 percent); and information services (2.1 percent). Top employers in USVI include Hovensa, LLC; Kmart Corporation; Ritz-Carlton Hotel; Turner St. Croix Maintenance; Innovative Telephone; Caneel Bay, Inc; and Westin St. John Hotel. Information on the number of employees at each company was not available.

Overall, the Islands' economy is expected to only improve slightly this year, with moderate growth. The government's fiscal problems continue to represent the downside risk in what may be a sub par performance in the near future.

### Housing Stock

The housing stock within the bank's assessment area totals 1.5 million units, of which 938,389 (63.9 percent) are owner-occupied, 363,584 (24.8 percent) are occupied rental units, and the remaining 166,705 (11.3 percent) are vacant. The majority of the units, 1.3 million (88.4 percent) are 1-4 family dwellings, with 163,202 (11.1 percent) multi-family dwellings, 6,494 (0.4 percent) mobile homes, and 584 (negligible percentage) other units. Other units include houseboats, railroad cars, campers, and vans. The median age of housing stock is 23 years, and the median housing value of the Puerto Rico assessment area is \$77,375. However, the median value in low- and moderate-income areas in Puerto Rico is \$53,041 and \$59,958, respectively. Median housing values are not available for USVI.

<b>Table B – Selected Housing Characteristics by Income Category of the Geography - Puerto Rico</b>									
Geographic Income Category	Percentage						Median		
	Census Tract	House-holds	Housing Units	Owner-Occupied	Rental Units	Vacant Units	Age*	Home Value	Gross Rent**
Low	2.6%	2.0%	1.9%	0.8%	5.1%	1.5%	30	\$53,041	\$115
Moderate	24.1%	22.3%	22.4%	21.4%	24.7%	23.7%	23	\$59,958	\$241
Middle	46.8%	48.7%	48.9%	50.0%	45.2%	50.9%	22	\$69,298	\$288
Upper	26.5%	27.0%	26.7%	27.8%	25.0%	24.0%	25	\$108,642	\$411
N/A	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	15	\$0	\$0
Total or Median	100%	100%	100%	100%	100%	100%	23	\$77,375	\$300

Source: U.S. Census, \* - Owner-Occupied Units, \*\* - Renter-Occupied Units

<b>Table C – Selected Housing Characteristics by Income Category of the Geography – USVI</b>									
Geographic Income Category	Percentage						Median		
	Census Tract	House-holds	Housing Units	Owner-Occupied	Rental Units	Vacant Units	Age*	Home Value	Gross Rent**
Low	9.4%	10.0%	10.3%	6.3%	13.2%	11.6%	25	NA	\$291
Moderate	12.5%	12.3%	11.9%	12.4%	12.3%	10.0%	18	NA	\$379
Middle	46.9%	46.5%	45.5%	44.4%	48.3%	41.3%	25	NA	\$540
Upper	31.2%	31.2%	32.3%	36.9%	26.2%	37.1%	21	NA	\$664
N/A	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0	NA	\$0
Total or Median	100%	100%	100%	100%	100%	100%	23	NA	\$521

Source: U.S. Census, \* - Owner-Occupied Units, \*\* - Renter-Occupied Units

### Housing Affordability

An analysis of the affordability of housing within the assessment area was performed. The affordability ratio indicates the amount of single family owner-occupied housing that a dollar of income can purchase for the median household within a geography. The ratio is calculated by dividing the median household income by the median housing value of the area or geography under consideration. Values closer to 1.0 indicate greater affordability. The median household

income of the bank's assessment area within Puerto Rico is \$16,013 and the median housing value is \$77,375, resulting in an affordability ratio of 0.21. Due to the fact that the median housing values are not available for the U.S. Virgin Islands, the affordability ratios could not be calculated.

The high cost of housing in relation to the low household incomes has made it difficult for banks and community development organizations to participate in projects aimed at satisfying the credit needs of low- and moderate-income borrowers, as defined in the CRA regulation. For example, the highest 2005 HUD-adjusted median family income in Puerto Rico is \$21,500 (MSA 41980). For any community development loan to be considered "qualified" for CRA purposes, the majority of the housing units would have to be for borrowers with annual incomes below \$17,200. In Puerto Rico, the cost of housing is very high, making it nearly impossible for banks to originate qualified community development loans or purchase lending-related qualified investments. However, since the island is considered a "high-cost area," Interagency guidance allows examiners flexibility in considering which projects have a primary purpose of community development.

Due to the relatively high cost of housing in Puerto Rico and the extremely low income levels, it would appear as though there would be a credit shortage for upper-income people as well. In the San Juan MSA, an upper-income individual earns over \$25,800, which still only results in an affordability ratio of 0.33. The following information demonstrates the high-cost of housing as well as justifies the inclusion of government-sponsored community development loans and investments (using government-determined income limits) in this performance evaluation.

### **The Puerto Rico Housing Bank & Finance Agency (Banco de la Vivienda)**

The Puerto Rico Housing Bank & Finance Agency (PRHB), through its various loan programs, is the primary government entity responsible for facilitating the growth of affordable housing projects on the island. Created in 1961 as a governmental instrumentality of the Commonwealth of Puerto Rico, its purpose is to assist the government of Puerto Rico in its housing programs and to develop more effectively its governmental responsibility for promoting the economy and the welfare of the residents. The housing bank administers the following housing programs:

1. Act 124 Loans.
2. Spot Loans.
3. Mortgage Insurance (Puerto Rico Law 87).
4. HOME Program Administration.

#### **1. Act 124 Loans**

The Act 124 Loan Program was introduced through Legislative Act 124 in December 1993. It was designed to stimulate the construction and sale of owner-occupied housing units to low- and moderate-income families through private sector participation. Act 124 loans are funded in part by a budget allocation from the Commonwealth of Puerto Rico and by proceeds from the sale of Government National Mortgage Association (GNMA), Federal National Mortgage Association

(FNMA), and Federal Home Loan Mortgage Corporation (FHLMC) Certificates backed by pools of Act 124 loans.

Under Act 124, builders submit project plans to the housing bank to receive its endorsement. Eligible projects contain newly constructed single family structures or condominium units that have sales prices below established maximums. As the programs are built in stages, the Legislature periodically adjusts the maximum sales prices. In mid-2004, the maximum selling price was increased to \$90,000 with some urban areas set at \$100,000. Maximum selling prices are determined by the Legislature after considering the location of the property, the maximum mortgage amount insurable by FHA, and guides and parameters generally accepted in the construction industry.

Once the project endorsement is received, the housing bank issues a commitment when a stage of the program is active and the developers submit all the required documents. The endorsement/commitment allows for an expedited approval/licensing process at the various government agencies involved in the building process. The housing bank does not provide construction or permanent financing. Therefore, it is necessary for the builder to obtain financing from other government agencies or financial institutions.

Developers benefit in several ways. Approvals are expedited, sales risk is reduced due to strong demand and subsidies, and a portion of the developers' profit from each unit is tax-exempt. This exemption ranges from \$4,000 per unit in Group III municipalities to \$5,000 per unit in Group I.

In addition to the criteria discussed above, the developer agrees that the units will only be sold to qualified low- and moderate-income families (LMI). The housing bank defines LMI families as those whose income does not exceed \$45,000 per year. This maximum income was established to be consistent with the limits under Federal or local social interest programs applicable in Puerto Rico, such as the Department of Housing & Urban Development's (HUD) HOME program, Rural Development's housing programs, or the Spot Loan Program (discussed later).

Act 124 provides two forms of subsidy, administered by the housing bank. Developers agree that at least 35 percent of the LMI buyers must meet the qualifications for Act 124 subsidies. Applicant income and family size determine the applicability of subsidies, if any. Down payment assistance in the amount of 2 percent of the acquisition cost, not to exceed \$1,280, is provided, as well as monthly installment payment subsidies. These monthly subsidies subsidize the difference between the prevailing market rate established for the particular stage and the rate paid by the borrower. Subsidized mortgage interest rates are available at 3.75 percent, 4.75 percent, and 5.75 percent, depending upon family size and income level. The prevailing rate for Stage VIII is 6.5 percent. The prevailing rate for Stage VII was 7 percent. Applicants not receiving interest rate subsidies pay the prevailing rate for the particular stage. Buyers must obtain mortgages from lenders participating in the Act 124 Loan Program.

## 2. Spot Loans

These loans are originated by the PRHB directly, for the purchase of new or existing homes, construction, or home improvements. The maximum loan is \$90,000; the maximum rate is fixed

at 6 percent for a term of 30 years. The maximum annual income for applicants is \$45,000. There is a closing cost subsidy based on income levels, up to a 3 percent discount. For applicants with incomes of \$20,000 or less, borrowers receive a 3 percent discount. For incomes between \$20,001 and \$29,999, borrowers receive a 2 percent discount. For incomes between \$30,000 and \$45,000, borrowers receive a 1 percent discount.

3. Mortgage Insurance Program (Puerto Rico Law 87)

The PRHB issues mortgage insurance that provides 100 percent coverage of applicable loans. The insurance is used in conjunction with all Spot Loans, some Act 124 loans, and loans originated by private lenders where the applicant's gross annual income does not exceed \$45,000, the loan interest rate is at least ½ percent below the prevailing market interest rate, and closing costs do not exceed 3 percent of the loan amount.

4. HOME Program

The HOME Investment Partnership Program (HOME Program), administered by the Department of Housing and Urban Development (HUD) allocates funds by formula among eligible State and local governments to strengthen public-private partnerships and to expand the supply of decent, safe, sanitary, and affordable housing with primary attention to rental housing for low-income families. Generally, HOME funds must be matched by nonfederal resources. State and local governments that become participating jurisdictions may use HOME funds to carry out multi-year housing strategies through acquisition, rehabilitation, and new construction of housing and tenant based rental assistance. Participating jurisdictions may provide assistance in a number of eligible forms, including loans, advances, equity investments, interest subsidies, and other forms of investment that HUD approves.

The following municipalities on the island of Puerto Rico receive HOME funds directly from HUD and are charged with the administration of the funds: Aguadilla, Arecibo, Bayamon, Caguas, Carolina, Guaynabo, Mayaguez, Ponce, San Juan, Toa Baja, Trujillo Alto, and Vega Baja. The remainder of the funds are allocated to the island of Puerto Rico and administered by the PRHB.

**The Puerto Rico Housing Finance Corporation (Corporation)**

On November 16, 1977, the Board of Directors of the Government Development Bank of Puerto Rico established the Puerto Rico Housing Finance Corporation. The Corporation was formed to oversee the construction, reconstruction, improvement, alteration, and repair of decent, safe, and sanitary dwellings for persons and families of low- and moderate-income in Puerto Rico. With the aid of Section 8 housing subsidies, construction began on several projects throughout the island. Through the years, these projects were completed and it became evident that additional funds were needed to improve the projects and build additional housing facilities for low- and moderate-income families. To address the additional funding needs, the Corporation received approval on December 21, 1987, to issue \$327 million in AAA-rated bonds, the proceeds of which were used to purchase GNMA Collateralized Mortgage Obligations. These

GNMA securities were backed by the mortgages on the Section 8 multifamily housing constructed by the Corporation in the late 1970's and early 1980's.

There is little rental construction available at this time, with the shift in focus from rental housing to owner-occupied affordable housing and changes to the Section 8 program where annual renewals are only available. Since 2001, the Corporation has financed 8 housing projects under its tax credit program which include 851 housing units for a total of \$45.3 million. Under its loan financing program, it has financed 4 housing projects with 550 units, for a total of \$26.6 million. For its 124 program, it created bond issuance number 7 for 9 housing projects with 793 housing units and a total of \$52.2 million. It created bond issuance number 8 for 39 housing projects with 5,682 housing units, totaling \$278.7 million and bond issuance number 9 for 6 housing projects with 658 housing units totaling \$40.3 million. It also sold 1 housing project with 60 housing units totaling \$3 million. The 124 program is designed to provide housing units for low- and moderate-income families on the island.

Financial institutions can support the operations of the Puerto Rico Housing Finance Corporation by purchasing its various bond issues. The proceeds of bond issues are either used to finance the construction of Act 124 housing or used to finance individual mortgage loans to buyers of Act 124 housing.

### **Construction Costs**

Home construction costs in Puerto Rico are high due primarily to the cost of land. Buildable land is in short supply in the urban, highly populated areas. Costs are less in the rural areas; however, the lack of adequate transportation and infrastructure greatly reduces the demand for housing in these areas. A review of current projects revealed construction costs are approximately \$30,000 for Habitat for Humanity (voluntary labor, donated materials, and land made available at a very low cost), \$31,000 for Act 124 programs in non-MSA portions of the island (borrower incomes are much lower), and approximately \$60,000 in a Neighborhood Housing Services project in Ponce.

### **Public Housing**

There is a large segment of the population that does not earn sufficient income to afford home ownership or to make market-rate rent payments. Their housing needs are met by the Department of Housing of the Commonwealth of Puerto Rico. They operate 329 public housing projects in Puerto Rico containing 56,000 housing units for approximately 250,000 persons. The waiting list for public housing is approximately equal to the current number of residents. Based on a total island population of 3.8 million, about 7 percent of the population either lives in or is waiting to live in public housing.

Public housing is located throughout the island. Only one municipality does not have a public housing project. Most projects are located in MSA 7440 (San Juan - Bayamon), but large numbers can also be found in the more urban areas of Ponce and Mayaguez. In MSA 7440, there are 136 projects (41 percent) containing 30,260 units for 121,000 people.



Of the families living in public housing, 21 percent have \$0 or negative rents. Ninety-one percent have rents ranging from -\$32 to less than \$101 per month. The largest single rent range is \$.01 to \$20.99, where 46 percent of the rents fall.

### **Economic Development Bank (EDB)**

Created in 1985, the Puerto Rico government sponsored bank was formed to help small start-up businesses gain access to funding. Since 1985, the EDB has lent over \$800 million to 7,300 businesses. The maximum loan amount is \$5 million. More recently, with the loss of 936 Deposits, EDB has been looking into other investment avenues to raise funds for its small business lending endeavors.

### **Conclusion:**

Bank participation in the various programs of the Puerto Rico Housing Bank & Finance Agency and the Puerto Rico Housing Finance Corporation is needed for the programs to be successful. Banks can either purchase securities backed by Act 124 mortgages or originate construction mortgages to developments with a government endorsement. Clearly, using the HUD-adjusted median family income figures, the majority of the investments and loans would not be considered “qualified” for CRA purposes. However, the sales activity presented above shows that the government-established affordable housing income limit of \$45,000 is a more appropriate and reasonable estimate. Therefore, loans to developers of Act 124 housing, as well as investments backed by Act 124 loans, will be considered “qualified” for the purposes of community development lending and investments presented in this CRA Performance Evaluation.

### **Competition and Services**

The assessment area is served by many large financial institutions and affiliated mortgage companies, including Banco Popular and Popular Mortgage; Doral Bank, HF Mortgage Bankers, Sana Investment Mortgage and Doral Mortgage; RG Premier Bank, RG Mortgage Corporation, and The Mortgage Store; Santander Mortgage, Oriental Group; Westernbank, and Citibank, N.A. These twelve institutions accounted for more than 80 percent of the residential mortgage originations in Puerto Rico in 2004. The bank relies on media advertising, walk-in traffic throughout its vast network of bank branch and mortgage company offices, in addition to realtors and Internet banking, for marketing of its many residential mortgage loan products.

### **Community Contact**

A recent community contact was performed in conjunction with another FDIC examination in Puerto Rico and, in addition, a previously initiated contact was reviewed. According to the contact made during the recent examination, there are numerous community development opportunities for financial institutions which include the following: 1) deposits in Community Development Financial Institutions (CDFIs), 2) micro enterprise loans, 3) home improvement products, 4) lines of credit to community groups, 5) better partnerships between banks and community groups, and 6) housing developments that plan for displaced people. The previously

initiated contact, which was reviewed during this examination, emphasized the need for continued education among Puerto Rico residents, and especially the need to coordinate all the existing universities to improve their access to available educational research data. It was stressed that a better educated citizenry will serve to improve the overall economy of the island.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**

### **Scope of Evaluation**

The evaluation of this institution's lending performance is based on a review of all residential mortgage, small business and consumer loans originated by the bank and its affiliates (FirstMortgage and MoneyExpress) during 2004 and 2005. Performance by dollar volume was similar to number volume, and therefore is not included herein. Small farm loans were not reviewed, as agricultural lending is minimal.

Community development loans, investments, and services were reviewed for the period following the previous evaluation.

## **LENDING TEST**

### **Scope of Test**

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and (7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

### **Lending Activity and Assessment Area Concentration**

This performance criterion considers the volume of FBPR's lending (excluding affiliates), including the number and dollar amount of the bank's home mortgage, small business and consumer loans originated and purchased within the bank's assessment area during 2004 and 2005.

### **Conclusion:**

Overall, the bank's level of lending reflects good responsiveness to assessment area credit needs. Originations for HMDA loans and consumer lending represent a significant majority of the bank's total lending, by both number of loans and dollar volume. Small Business lending reflects a significant decline from 2004 to 2005; however, this is attributed to the bank's purchase of a sizeable number of small business loans in the secondary market in 2004. This same level of purchasing was not repeated in 2005. With the exception of a few multi-family

residential mortgage loans originated by the bank's Florida affiliate, all loans were made within the assessment area.

<b>Table D - Distribution of Loans Inside and Outside of the Assessment Area – Firstbank, PR</b>										
<b>Loan Category or Type</b>	<b>Number of Loans</b>					<b>Dollars in Loans (000s)</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$</b>	<b>%</b>	<b>\$</b>	<b>%</b>	
<b>Home Mortgage</b>										
<b>2004</b>	3,268	98.6%	47	1.4%	3,315	\$481,004	97.8%	\$10,810	2.2%	\$491,814
<b>2005</b>	7,074	99.7%	22	0.3%	7,096	\$999,466	72.5%	\$378,258	27.5%	\$1,377,724
<b>Subtotal</b>	10,342	99.3%	69	0.7%	10,411	\$1,480,470	79.2%	\$389,068	20.8%	\$1,869,538
<b>Small Business</b>										
<b>2004</b>	1,048	100.0%	0	0.0%	1,048	\$197,328	100.0%	\$0	0.0%	\$197,328
<b>2005</b>	714	100.0%	0	0.0%	714	\$180,583	100.0%	\$0	0.0%	\$180,583
<b>Subtotal</b>	1,762	100.0%	0	0.0%	1,762	\$377,911	100.0%	\$0	0.0%	\$377,911
<b>Consumer</b>										
<b>2004</b>	49,050	100.0%	1	0.0%	49,051	\$376,271	100.0%	\$8	0.0%	\$376,279
<b>2005</b>	52,803	100.0%	0	0.0%	52,803	\$480,541	100.0%	\$0	0.0%	\$480,541
<b>Subtotal</b>	101,853	100.0%	1	0.0%	101,854	\$856,812	100.0%	\$8	0.0%	\$856,820
<b>Res Mtg (VI)</b>										
<b>2004</b>	594	100.0%	0	0.0%	594	\$0	0.0%	\$0	0.0%	\$0
<b>2005</b>	570	100.0%	0	0.0%	570	\$0	0.0%	\$0	0.0%	\$0
<b>Subtotal</b>	1,164	100.0%	0	0.0%	1,164	\$0	0.0%	\$0	0.0%	\$0
<b>Total</b>	115,121	99.9%	70	0.1%	115,191	\$2,715,193	87.5%	\$389,076	12.5%	\$3,104,269

Source: HMDA and CRA Disclosure Statements (2004), HMDA LAR (2005), and CRA data collection (2004-2005)

### HMDA Lending

Both the volume and dollar amount of residential mortgage lending (HMDA) rose significantly from 2004 to 2005, largely the result of the bank's purchasing of residential mortgages from the secondary market. Several thousand inter-bank purchases of residential mortgage loans in 2004 were excluded from this analysis.

### Small Business Lending

The bank's origination/purchases of small business loans declined significantly from 2004 to 2005. This is attributed to the volume of loans purchased in the secondary market in 2004 (657);

which, as noted previously, were not repeated in 2005. The total number of small business loans originated by the bank in 2005 (614) reflected a significant increase over the number originated in 2004 (360), indicating a very positive upward trend in this particular loan product.

### Consumer Lending

Although consumer lending represents less than twenty percent of the bank's loan portfolio, the volume of unsecured consumer loans is significant and reflective of the bank's commitment to the credit needs of the local community.

### Residential Mortgage Lending (USVI)

The USVI is not a HMDA reporter, thus these loans are identified separately here, and throughout the evaluation.

The following tables (Tables E through E2) further delineate the various types of residential mortgages (HMDA) originated or purchased by both the bank and its affiliates during the period under evaluation. As noted in Table E1 and E2, the distribution of residential mortgage lending is equally divided by both purchases and refinancing, while lending by MoneyExpress is predominantly refinancing. It should be noted that all of the loans identified in Table E1 are also included in the figures in Table E, as FirstBank purchases all residential mortgage loans originated by its subsidiary.

<b>Table E – Distribution of HMDA Loans Inside the Assessment Area – FirstBank, PR</b>						
<b>Loan Category or Type</b>	<b>2004</b>		<b>2005</b>		<b>Total</b>	
	<b>Number of Loans</b>		<b>Number of Loans</b>		<b>Number of Loans</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Home Purchase</b>	1,596	48.8%	4,316	61.0%	5,912	57.1%
<b>Refinance</b>	1,580	48.4%	2,307	32.6%	3,887	37.6%
<b>Home Improvement</b>	90	2.7%	415	5.9%	505	4.9%
<b>Multi-Family</b>	2	0.1%	36	0.5%	38	0.4%
<b>Total*</b>	<b>3,268</b>	<b>100%</b>	<b>7,074</b>	<b>100%</b>	<b>10,342</b>	<b>100%</b>

Source: HMDA Disclosure Statements (2004), and HMDA LAR (2005) \* - Total percentage may not add to 100 due to rounding.

Table E1 – Distribution of HMDA Loans Inside the Assessment Area – FirstMortgage						
Loan Category or Type	2004		2005		Total	
	Number of Loans		Number of Loans		Number of Loans	
	#	%	#	%	#	%
Home Purchase	1,012	46.9%	2,583	60.0%	3,595	55.7%
Refinance	1,066	49.5%	1,382	32.1%	2,448	37.9%
Home Improvement	75	3.5%	322	7.5%	397	6.1%
Multi-Family	2	0.1%	15	0.4%	17	0.3%
<b>Total*</b>	<b>2,155</b>	<b>100%</b>	<b>4,302</b>	<b>100%</b>	<b>6,457</b>	<b>100%</b>

Source: HMDA Disclosure Statements (2004), and HMDA LAR (2005) \* - Total percentage may not add to 100 due to rounding.

Table E2 – Distribution of HMDA Loans Inside the Assessment Area – MoneyExpress						
Loan Category or Type	2004		2005		Total	
	Number of Loans		Number of Loans		Number of Loans	
	#	%	#	%	#	%
Home Purchase	11	13.1%	4	5.1%	15	9.3%
Refinance	71	84.5%	30	38.5%	101	62.3%
Home Improvement	2	2.4%	44	56.4%	46	28.4%
Multi-Family	0	0.0%	0	0.0%	0	0.0%
<b>Total*</b>	<b>84</b>	<b>100%</b>	<b>78</b>	<b>100%</b>	<b>162</b>	<b>100%</b>

Source: HMDA Disclosure Statements (2004), and HMDA LAR (2005) \* - Total percentage may not add to 100 due to rounding.

## Geographic Distribution of Loans

This segment of the performance evaluation assesses the bank's performance in addressing the credit needs in low-, moderate-, middle-, and upper-income census tracts in the bank's assessment area. The bank's assessment area (including USVI) contains 855 census tracts, of which, 24 (2.8 percent) are low-income, 202 (23.6 percent) are moderate-income, 400 (46.8 percent) are middle-income, and 228 (26.7 percent) are upper-income. There was 1 census tract (less than 1 percent) that did not have income figures available; indicating that particular tract was not populated.

All lending analysis discussions regarding the bank's geographic distribution of loans includes that of its mortgage subsidiary (FirstMortgage) and affiliate (MoneyExpress), and considers the lending of all entities as a whole when referring to the bank's performance.

#### Conclusion:

FBPR demonstrates good penetration of loans throughout the four income level census tracts for residential mortgage loans, and excellent penetration for consumer loans. Small business lending also reflects a good penetration.

#### HMDA Lending

As reflected in the following table (Table F), the bank's residential mortgage lending across low- and moderate-income geographies has shown a modest increase from 2004 to 2005; however, the percentage of loans originated by the bank within these geographies during 2004 is less than the aggregate lending of financial institutions within Puerto Rico. Although overall lending among financial institutions has declined moderately during 2005, aggregate data is not yet available for any further comparisons. FBPR's lending percentages within low-, moderate-, and middle-income geographies in 2005 are also lower than the comparative factor of owner-occupied housing units within these same geographies. Lending in upper-income census tracts is fairly consistent over the period and slightly above the market.

<b>Table F – Distribution of HMDA Loans by Income Category of the Census Tract – All entities</b>									
<b>Census Tract Income Level</b>	<b>% of Total Owner-Occupied Housing Units</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	0.8%	0.6%	N/A	11	0.3%	33	0.5%	44	0.4%
<b>Moderate</b>	21.4%	15.4%	N/A	444	13.2%	951	13.3%	1,395	13.3%
<b>Middle</b>	50.0%	42.6%	N/A	1,358	40.5%	2,982	41.7%	4,340	41.3%
<b>Upper</b>	27.8%	41.3%	N/A	1,539	45.9%	3,186	44.5%	4,725	45.0%
<b>\$0/NA Income</b>	0.0%	0.1%	N/A	0	0.0%	0	0.0%	0	0.0%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>N/A</b>	<b>3,352</b>	<b>100%</b>	<b>7,152</b>	<b>100%</b>	<b>10,504</b>	<b>100%</b>

Source: U.S. Census, HMDA Disclosure Statements (2004), HMDA LAR (2005), and HMDA Aggregate Data

\* - Total percentage may not add to 100 due to rounding.

## Residential Mortgage Lending – USVI

As reflected in the following table (Table F1), the bank’s residential mortgage lending, within the USVI, across low-income geographies shows a modest increase from 2004 to 2005; however, lending in moderate-income census tracts is reflecting a significant decline, with lending across the other geographic areas relatively consistent. In as much as the USVI is not subject to HMDA reporting, aggregate data is not available for comparison.

<b>Table F1 – Distribution of Residential Mortgage Loans by Income Category of the Census Tract – Virgin Islands</b>									
<b>Census Tract Income Level</b>	<b>% of Total Owner-Occupied Housing Units</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	6.3%	N/A	N/A	26	4.4%	29	5.1%	55	4.7%
<b>Moderate</b>	12.4%	N/A	N/A	47	7.9%	22	3.9%	69	5.9%
<b>Middle</b>	44.4%	N/A	N/A	174	29.3%	167	29.3%	341	29.3%
<b>Upper</b>	36.9%	N/A	N/A	347	58.4%	352	61.7%	699	60.1%
<b>\$0/NA Income</b>	0.0%	N/A	N/A	0	0.0%	0	0.0%	0	0.0%
<b>Total*</b>	<b>100%</b>	<b>N/A</b>	<b>N/A</b>	<b>594</b>	<b>100%</b>	<b>570</b>	<b>100%</b>	<b>1,164</b>	<b>100%</b>

Source: U.S. Census, Residential Mortgage Data

\* - Total percentage may not add to 100 due to rounding.

## Small Business Lending

Small business lending, as reflected in Table G, reflects only a modest increase in lending across moderate- and middle-income census tracts. The bank’s small business lending among low- and moderate-income census tracts is also relatively consistent in comparison to the aggregate lending of all large financial institutions. In view of the bank’s size, the demographics of the island, and the current business strategy, small business lending reflects good penetration throughout the assessment area, and a continued commitment to the business needs of the communities. Although relatively minimal in number, the penetration of small business lending in low- and moderate-income census tracts in the USVI was nil. Business demographics on these particular areas are not available from the U.S. Census Bureau.



<b>Table G – Distribution of Small Business Loans by Income Category of the Census Tract</b>								
<b>Census Tract Income Level</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
	<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	1.0%	0.9%	9	0.9%	6	0.8%	15	0.8%
<b>Moderate</b>	18.0%	17.3%	135	12.9%	116	16.3%	251	14.3%
<b>Middle</b>	40.0%	40.0%	327	31.2%	269	37.7%	596	33.8%
<b>Upper</b>	38.7%	39.3%	492	46.9%	323	45.2%	815	46.3%
<b>\$0/NA Income</b>	2.3%	2.5%	85	8.1%	0	0.0%	85	4.8%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>1,048</b>	<b>100%</b>	<b>714</b>	<b>100%</b>	<b>1,762</b>	<b>100%</b>

*Source: CRA data collection (2004, and 2005), and CRA Aggregate Data*

*\* Total percentage may not add to 100 due to rounding.*

### Consumer Lending

By volume, consumer lending comprises FBPR's largest lending product and the bank has requested that the data be considered in its CRA evaluation. There is no aggregate data available for this category of loans since collection of consumer loan data by financial institutions is optional and not reportable. However, one benchmark to measure the opportunities for the bank to originate consumer loans in a particular geographic area is the percentage of households in each income level census tract.

As reflected in Table H, the distribution of consumer lending across the various geographies, especially low- and moderate-income census tracts, reflects an excellent penetration. The percentages of loans originated to each of these geographies mirrors the distribution of households, which is a testament to the bank's ability to penetrate all segments of the island with these particular loan products.

<b>Table H – Distribution of Consumer Loans by Income Category of the Census Tract – FirstBank, PR</b>									
<b>Census Tract Income Level</b>	<b>% of Total Households</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	2.0%	N/A	N/A	991	2.0%	1,015	1.9%	2,006	2.0%
<b>Moderate</b>	22.3%	N/A	N/A	10,459	21.3%	11,553	21.9%	22,012	21.6%
<b>Middle</b>	48.7%	N/A	N/A	23,259	47.4%	24,987	47.3%	48,246	47.4%
<b>Upper</b>	27.0%	N/A	N/A	14,341	29.2%	15,248	28.9%	29,589	29.0%
<b>\$0/NA Income</b>	0.0%	N/A	N/A	0	0.0%	0	0.0%	0	0.0%
<b>Total*</b>	<b>100%</b>	<b>N/A</b>	<b>N/A</b>	<b>49,050</b>	<b>100%</b>	<b>52,803</b>	<b>100%</b>	<b>101,853</b>	<b>100%</b>

Source: U.S. Census, CRA Data Collection (2004- 2005)

\* - Total percentage may not add to 100 due to rounding.

### **Borrower Characteristics**

This category evaluates the bank’s record of lending to low-, moderate-, middle-, and upper-income borrowers. This performance criterion considers the distribution, particularly in the bank’s assessment area, of the bank’s home mortgage loans and small business loans based on borrower characteristics, including the number of home mortgage loans to low-, moderate-, middle-, and upper-income individuals; small business loans to businesses with gross annual revenues of \$1 million or less; and small business loans by loan amount at origination.

Borrower incomes are compared to Department of Housing and Urban Development (HUD) adjusted median family income figures for the year in which the loans were granted. Table I contains the 2004 and 2005 HUD Adjusted Incomes for those MSAs that comprise the bank’s assessment area. The 2006 figure is provided to show the trend at which these incomes have increased during the evaluation period.

<b>Table I – HUD Adjusted Income by MSA</b>				
MSA	Name	2004	2005	2006
10380	Aguadilla	\$14,800	\$15,000	\$15,400
21940	Fajardo	\$19,700	\$20,300	\$20,800
25020	Guayama	\$15,900	\$16,300	\$16,800
32420	Mayaguez	\$18,200	\$18,350	\$18,900
38660	Ponce	\$17,200	\$17,400	\$17,800
41900	San German	\$17,200	\$17,400	\$17,900
41980	San Juan	\$20,600	\$20,900	\$21,500
49500	Yauco	\$14,800	\$15,100	\$15,500
99999	Non-MSA (PR)	\$14,100	\$14,250	\$14,600
99999	St. Croix	\$27,800	\$29,900	\$29,000
99999	St. Thomas/St. John	\$37,300	\$37,350	\$38,500

*Source: US Department of Housing and Urban Development*

This performance criterion considers the volume of FBPR's lending, and the lending of its subsidiary (FirstMortgage) and affiliate (MoneyExpress). FirstBank Virgin Islands' lending is considered separately due to the fact that this segment is not a HMDA reporter. All lending analysis discussions regarding FBPR's distribution of loans by borrower income includes that of its mortgage affiliates when referring to the bank's performance.

### Conclusion:

FBPR's HMDA lending reflects poor distribution to borrowers of different income levels. The bank's lending to business customers of different sizes reflects good distribution, while consumer lending, again, reflects an excellent distribution of loans by borrower incomes.

### HMDA Lending

This category discusses the bank's HMDA lending for 2004 and 2005 and compares it to the percentage of total families within each income category and the aggregate lending data of all other institutions within Puerto Rico. Aggregate data for calendar year 2005 was not available at the time of this evaluation. Borrower incomes are compared to HUD adjusted median family income figures for the year in which the loans were granted. As noted earlier within the performance context, these incomes are historically low and not truly reflective of the actual incomes of the residents of Puerto Rico. However, these figures can be obtained at HUD's web site – [www.huduser.org](http://www.huduser.org).

Table J reflects the distribution of the bank's residential mortgage lending across low-, moderate-, middle-, and upper-income borrower categories. The distribution of HMDA loans during 2004 reflects poor distribution of loans among both low- and moderate-income borrowers, while distribution among the other income levels is comparatively good. Distribution among low- and moderate-income borrowers is also showing a slight decline during 2005, which may be attributed to the higher percentage of loans purchased by the bank in the secondary market for which it did not collect applicant income data. Although historically, applicant

incomes on loans sold in the secondary market tend to be in the middle- and upper-income areas, this cannot be ruled out as a factor in the declining percentage of loans identified to low- and moderate-income borrowers. Aggregate data is not yet available for 2005 so no comparison can be made to the overall penetration rates. With the high cost of housing in Puerto Rico, it would be unrealistic to compare these dispersion rates to the percentage of families within the various income categories.

<b>Table J – Distribution of HMDA Loans by Borrower Income – All Entities</b>									
<b>Borrower Income Level</b>	<b>% of Total Families</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	25.8%	1.1%	N/A	20	0.6%	30	0.4%	50	0.5%
<b>Moderate</b>	15.3%	6.0%	N/A	130	3.9%	173	2.4%	303	2.9%
<b>Middle</b>	16.0%	14.2%	N/A	340	10.1%	572	8.00%	912	8.7%
<b>Upper</b>	43.0%	76.0%	N/A	2,830	84.4%	5,297	74.1%	8,127	77.4%
<b>\$0/NA Income</b>	0.0%	2.7%	N/A	32	1.0%	1,080	15.1%	1,112	10.6%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>N/A</b>	<b>3,352</b>	<b>100%</b>	<b>7,152</b>	<b>100%</b>	<b>10,504</b>	<b>100%</b>

*Source: U.S. Census, HMDA Disclosure Statements (2004), HMDA LAR (2005), and HMDA Aggregate Data \* - Total percentage may not add to 100 due to rounding.*

### Consumer Lending

The evaluation of consumer lending also utilizes the same HUD adjusted median family income figures described above for HMDA lending.

Distribution of consumer loans as reflected in Table K reflects excellent penetration among all income levels, especially moderate-income borrowers. Using a comparative factor of total households by borrower income, the figures further reflect that, for both 2004 and 2005, the bank has definitively achieved excellent results. Consumer lending within Puerto Rico represents the best opportunity for meeting the credit needs of low- and moderate-income borrowers. Although the bank's lending to low-income borrowers does not equal the percentage of low-income households within the market, the approximate 11 percent lending is still very good, as it is not expected that such a large percentage of low-income households would be eligible for any available credit product. As demonstrated by the volume of consumer lending and the distribution levels, FBPR has shown a positive commitment to meeting this very important credit need.

<b>Table K – Distribution of Consumer Loans by Borrower Income – FirstBank, PR</b>									
<b>Borrower Income Level</b>	<b>% of Total Households</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	26.2%	N/A	N/A	5,805	11.8%	5,313	10.1%	11,118	10.9%
<b>Moderate</b>	14.6%	N/A	N/A	15,011	30.6%	15,225	28.8%	30,236	29.7%
<b>Middle</b>	15.4%	N/A	N/A	13,682	27.9%	15,835	30.0%	29,517	29.0%
<b>Upper</b>	43.8%	N/A	N/A	14,550	29.7%	16,430	31.1%	30,980	30.4%
<b>\$0/NA Income</b>	0.0%	N/A	N/A	0	0.0%	0	0.0%	0	0.0%
<b>Total*</b>	<b>100%</b>	<b>N/A</b>	<b>N/A</b>	<b>49,050</b>	<b>100%</b>	<b>52,803</b>	<b>100%</b>	<b>101,853</b>	<b>100%</b>

*Source: U.S. Census, CRA Data Collection (2004- 2005)*

*Data \* - Total percentage may not add to 100 due to rounding.*

### Small Business Lending

A small business loan is a loan with an original amount of \$1 million or less categorized by the bank as either secured by non-farm nonresidential property or as a commercial and industrial loan.

As previously noted, the analysis of small business lending also includes those small business loans originated within the USVI. Approximately four percent of the small business loans originated or purchased by the bank during this evaluation period were originated by the bank's entity in the USVI. The bank's distribution of small business loans by loan size (Table L) reflects a significant majority of loans (71.2 percent) made by the bank are for less than \$250,000; thus reflecting a commitment to both small- and medium-sized businesses within the assessment area. This is further evidenced by the 2005 percentages of these small business loans to businesses with revenues of \$1 million or less, as reflected in Table M. The large percentage of loans identified as being to businesses with revenues greater than \$1 million/NA for 2004 in this same table are the result of not having obtained the revenue information on the 657 loans that the bank purchased in the secondary market. Thus, it is more reflective of the bank's small business lending strategy as noted in the 2005 distribution percentages. This performance is considered very good, as the dominant lender in the market also is an originator of business credit cards that traditionally are of lower dollar amounts. FBPR does not offer a business credit card product. FBPR was the tenth largest originator of small business loans within Puerto Rico during 2004, with slightly more than one percent of the market. With the increased volume of originations in 2005, it is expected that the bank will be among the top five lenders. FBPR's average loan size for loans originated in 2005 was less than \$250,000, which demonstrates a very positive commitment to the needs of small businesses within its assessment area.

<b>Table L – Distribution of Small Business Loans by Loan Size</b>										
<b>Loan Size (000s)</b>	<b>Similarly Situated Bank (%)</b>		<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>≤ \$100</b>	N/A	N/A	78.6%	77.2%	371	35.4%	242	33.9%	613	34.8%
<b>&gt; \$100 ≤ \$250</b>	N/A	N/A	12.5%	13.0%	436	41.6%	205	28.7%	641	36.4%
<b>&gt; \$250 ≤ \$1,000</b>	N/A	N/A	8.9%	9.8%	241	23.0%	267	37.4%	508	28.8%
<b>Total*</b>	<b>N/A</b>	<b>N/A</b>	<b>100%</b>	<b>100%</b>	<b>1,048</b>	<b>100%</b>	<b>714</b>	<b>100%</b>	<b>1,762</b>	<b>100%</b>

Source: CRA data collection (2004, and 2005), and CRA Aggregate Data, \* - Total percentage may not add to 100 due to rounding. NA – There were no similarly situated banks.

<b>Table M – Distribution of Small Business Loans by Gross Annual Revenues of Business</b>								
<b>Gross Annual Revenues (000s)</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
	<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>≤ \$1,000</b>	63.9%	63.0%	352	33.6%	598	83.7%	950	53.9%
<b>&gt; \$1,000 or NA</b>	36.1%	37.0%	696	66.4%	116	16.3%	812	46.1%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>1,048</b>	<b>100%</b>	<b>714</b>	<b>100%</b>	<b>1,762</b>	<b>100%</b>

Source: CRA data collection (2004 and 2005), and CRA Aggregate Data, \* - Total percentage may not add to 100 due to rounding.

### **Community Development Lending**

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

### **Conclusion:**

FBPR has become a leader in community development lending. During this evaluation period, the bank has originated 43 loans in the amount of \$339.1 million. While the majority of these loans are concentrated within the commercial lending area, the community development purpose

has been highlighted by the revitalization or stabilization of many low- and moderate-income areas, and especially the volume of jobs that are created by these commercial enterprises for low- and moderate-income individuals within Puerto Rico.

Puerto Rico

## **2004**

- 1) A \$1.5 million line of credit to finance working capital for several small construction projects in Ponce. These projects were part of the urban revitalization of the local market areas.
- 2) A \$9.0 million loan for the construction of a bulk terminal facility in Ponce. This facility will provide the port with the capability of receiving bulk tankers and to transfer raw material from ships to terminal tanks. This operation is in conjunction with a major soft and juice drink provider, and will provide job opportunities and economic growth to this area. The facility is located in a moderate-income census tract.
- 3) A \$3.7 million loan to finance the acquisition of approximately 180 super isotanks for the previously identified bulk terminal facility. This project is part of the economic development of the Ponce area through the “America’s Port” project, which is an undertaking by the government of Puerto Rico to dredge the harbors in Ponce to increase the volume of shipping into Puerto Rico, as well as the entire northern hemisphere. In addition to providing employment to the area, this project will create opportunities for small businesses, especially micro-enterprises.
- 4) A \$2.6 million loan to refinance existing mortgages and provide for working capital for a housing facility that provides hospital recuperative services for senior citizens, many of whom receive Medicaid funding. This facility is located in a moderate-income area of Gurabo.
- 5) A \$1.8 million loan to finance the acquisition of a commercial property to expand the facilities of a major technical college in Bayamon. This college provides technical training for most of the major carmakers as well as other manufacturing and service industries within Puerto Rico. The college also provides short term training for many of the low- and moderate-income residents of the island.
- 6) A \$260,000 increase in an existing credit facility to a major housewares distributor. The purpose of the increase was to finance an expansion of the facility to accommodate more employees within the companies sale force. Many of the company’s employees are identified as displace workers from other industries.
- 7) A \$2.5 million participation loan to a non-profit organization for the construction of a school facility in a middle-income census tract in Hatillo. Although this is a private educational facility, the school administration has made both the sport facilities and other space facilities available to various community groups.
- 8) A \$3.2 million loan to refinance the existing mortgage of a non-profit organization that owns and operates a 89 unit apartment building that provides affordable housing to the elderly low-

and moderate-income individuals. This organization is eligible for low-income tax credits, and as such most of the tenants receive rental assistance from the Puerto Rico Department of Housing (PRDH).

9) A \$13.0 million loan to finance construction of additional facilities at an educational facility in a moderate-income area of Carolina. Although this is a private educational institution, a significant majority of the student body receives federal tuition assistance. This school also provides remedial programs for disadvantaged and educationally deficient students.

10) A \$1.8 million loan to finance a condominium conversion project in Rio Piedras. This project is part of an urban rehabilitation project, and the units are priced to be affordable to low- and moderate-income residents of Puerto Rico.

## **2005**

11) A \$1.1 million construction loan to build 21 condo units in Las Vistas, a moderate-income census tract in Lares. These units were constructed in conjunction with an initiative from FEMA to relocate families affected by recent natural disasters. Funds from the HOME program will also be utilized. Refer to Performance Context section of this evaluation for additional information on this program.

12) A \$1.5 million increase in an existing credit facility for the construction of a bulk terminal facility in Ponce. This facility will provide the port with the capability of receiving bulk tankers and to transfer raw material from ships to terminal tanks. This operation is in conjunction with a major soft and juice drink provider, and will provide job opportunities and economic growth to this area. The facility is located in a moderate-income census tract and will offer employment to many of the low-skilled residents.

13) A \$3.3 million credit facility to finance the development of a commercial property in Ponce. The property will provide for new stores, principally a major retail clothing consignment store, thus the increased opportunity for employment in a moderate-income area. This development will also improve the overall economic opportunities for this area.

14) An \$11.7 million loan for the acquisition and development of a parcel of land in a low-income area of Ponce. The site will include a retail location for a major drugstore conglomerate, as well as other major national chain stores. This project will provide increased employment opportunities for many low- and moderate-income individuals in the area, as well as provide for much needed services and the economic development of the area.

15) A \$5.0 million credit facility to finance several restaurants planning to open in a middle-income census tract in Ponce. The development of these restaurants will bring economic development to the area as well as provide for increased job opportunities for many low- and moderate-income individuals.



16) An \$11.5 million line of credit to finance improvements to a local hospital in Ponce. Although the hospital is located in an upper-income area, the hospital serves many of the low- and moderate-income families in the area, especially senior citizens. The construction project will provide for additional medical offices and an additional wing of the hospital that will house cardiovascular and intensive care units.

17) A \$10.0 million working capital credit facility to the island's agricultural service and administration to finance the purchase and distribution of food products for the public school cafeterias. This line of credit is needed to bridge the gap between funding the food service program and receipt of federal funds from the USDA (United States Department of Agriculture).

A similar \$15.0 million working capital credit facility was granted to the island's agricultural service and administration (ASDA) to finance the purchase and distribution of coffee grains, which is a heavily subsidized industry in Puerto Rico. This line of credit is needed to bridge the gap between funding the local coffee producers and intermediaries that purchase the raw beans for processing.

18) A \$4.0 million loan to a major developer to finance the expansion and remodeling of several major restaurant chain locations throughout the island. The new openings and expansion of these facilities will generate jobs to many low- and moderate-income individuals.

19) Three separate credit facilities totaling approximately \$73.4 million for the acquisition of the island's major thoroughbred race track, which is located in a middle-income census tract in Canovanas. The previous owners of the track have been in bankruptcy for the past 10 years, and in as much as the horse racing industry is vital to the economy of Puerto Rico, the government has denied these owners a renewal of the license to operate the facility. A new group of owners have secured the necessary licensing and, with the credit being provided by FBPR, the track will remain open. This industry directly and indirectly employs approximately ten thousand people, including those workers in supporting fields such as farm hands at the horse breeding grounds.

20) A \$10.5 million construction loan for a 40 bed expansion of a rehabilitation hospital in a moderate-income census tract in Manati. The facility will also include supporting services such as a gymnasium and a swimming pool. The initial financing of this loan was originated by FBPR, of which \$4.2 million was sold as a participation loan to another financial institution, with FBPR retaining a \$6.3 million share of this facility.

21) A \$7.5 million loan to finance additional improvements to the aforementioned hospital in Manati. The proceeds of this loan will be used to acquire additional equipment, improvement of parking facilities, opening of an outpatient imaging center, and expansion of the hospital's nuclear medicine department

22) A \$4.0 million loan to finance the construction of 67 detached housing units in the vicinity of the former naval base, which is located in a moderate-income area of Naguabo. This project is expected to bring construction related activity to the area, as well as to provide stability and expanded housing in an area targeted for major redevelopment.

23) A \$1.4 million increase in an existing credit facility to a nationwide chain of restaurants in San Juan. This facility is to be used to finance capital expenditures associated with the opening of several chain restaurants in various parts of the San Juan metropolitan area. These restaurants will generate many more jobs, especially among low- and moderate-income individuals.

24) A \$15.0 million credit facility to finance the construction of new national chain restaurants throughout the island. These restaurants provide increased job opportunities for many of the low- and moderate-income individuals within the areas of these operations.

25) A \$15.0 million credit facility to the state authority that operates the port facilities. The purpose of this facility is to finance improvements to the marine terminals, port facilities, and air terminals. This will continue to improve the island's economic development; including the creation many new job opportunities.

26) A \$16.0 million loan for the construction a 131 bed pediatric hospital in a moderate-income area of Bayamon. This is expected to be the largest pediatric hospital in Puerto Rico dedicated to medical services to children. Aside from the health care that will be available to all residential children including low- and moderate-income families, this project will bring many new jobs to the area especially within the health care area.

27) A \$3.4 loan to acquire additional medical equipment for the aforementioned pediatric hospital in Bayamon.

28) A \$30 million loan to finance the construction of a shopping center in a moderate-income area of Rio Grande. This center will include a major food retailer as well as other smaller stores. Aside from the economic development that will encompass the area, the project will provide for many job opportunities for low- and moderate-income residents.

29) A \$30 million loan to finance the construction of several new restaurants by a major developer throughout the San Juan metropolitan area. These restaurants are expected to bring numerous job opportunities to the area, especially for low- and moderate-income individuals as well as students.

## **2006**

30) A \$1.2 million loan to finance several auto care facilities in a middle-income area of Caguas. These facilities will bring much needed services to the area, as well as provide numerous job opportunities for local residents, including low- and moderate-income individuals as many of these positions will be entry level, low skilled jobs.

31) A \$5.0 million loan to finance the construction of several major donut franchises in Caguas. Although the facility is located in a middle-income census tract, the surrounding area contains many public housing projects, thus affording greater employment opportunities to low- and moderate-income residents.

32) A \$2.1 million loan to finance the construction of supermarket in an upper-income area of Arecibo. This type of facility will bring many job opportunities for area low- and moderate-income residents.

33) A \$4.6 million revolving credit facility with conversion to a fixed term loan for the acquisition of land and construction of a commercial property. The first phase of this development will include the construction of a major clothing consignment store. The project is located in a middle-income area of Naranjit; however, the retailer will provide more job opportunities for area residents as well as opportunities for self-employment.

34) A \$1.2 million credit facility for the acquisition of major medical equipment for a hospital located in a moderate-income area of Bayamon. The hospital serves many of the area's low- and moderate-income residents.

35) A \$730,000 loan to finance the construction of a shopping center with nationwide food chains as the primary tenants. Although this area is identified as a middle-income census tract, it will offer numerous employment opportunities primarily for low- and moderate-income individuals with the area.

## Virgin Islands

### 2003

36) A \$1.5 million loan for the construction of a 20 unit housing complex for low- and moderate-income families in St. Croix.

### 2004

37) A \$2.2 million short term loan to the local housing authority to finance the annual payment of property insurance for those public housing properties managed by the authority in St. Thomas, St. John, and St. Croix. This will enable the local housing authority to pay the premium up front, while it waits additional funding from The Department of Housing and Urban Development (HUD), as well as from the approximately 5,000 tenants of the housing authority via their monthly rental payments.

### 2005

38) A \$3.2 loan to finance the construction of a 151 unit affordable housing rental project in a middle-income area of St. Thomas. The project involves the demolition of a former major chain hotel that has been abandoned after suffering major damage during a hurricane in the late 1980s. The rental complex is expected to attract area veterans and their families, elderly local residents, and those low- and moderate-income families that meet qualifying requirements.

39) A \$2.0 million short term loan to finance the annual property insurance for the local housing authority in St. Thomas, St. John, and St. Croix. The purpose of this loan is previously described under the year 2004.

## **2006**

40) A \$2.2 million short term loan to finance the annual property insurance for the local power and water authority in St. Thomas. The purpose of this loan is previously described under the year 2004.

41) A \$2.5 million working capital line of credit to the local power and water authority in St. Thomas. The purpose of this credit line is to safeguard against fuel price adjustments. One of the primary functions of the water authority is to desalinate seawater for sale to the local government, as well as the general public.

42) A \$1.4 million short term loan to finance the annual property insurance for the local housing authority in St. Thomas, St. John, and St. Croix. The purpose of this loan has been previously described under the year 2004.

In addition to the aforementioned community development loans, FBPR has committed approximately \$146 million to the construction of the Puerto Rico Convention Center Hotel. In as much as no funds have yet been extended, this construction loan will be given full consideration at the next performance evaluation.

## **Innovative or Flexible Lending Practices**

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

## **Conclusion:**

The bank makes limited use of innovative and flexible lending programs to serve the needs of low- and moderate-income individuals throughout the assessment area. The management of the bank recognizes that it needs to address this area of its lending performance, and has sought new opportunities and products. Below are some examples of the bank's current efforts in this area:

### Key to your Home

The bank is a participant in a local subsidized housing program targeted toward low- and moderate-income families. This program is called "The Key to Your Home," which enables families to purchase or rehabilitate their homes through payment subsidies or assistance with down payments and closing costs. The bank agrees to more flexible underwriting standards to

participate in this program. During the evaluation period, the bank originated 232 loans under this program, totaling approximately \$17.7 million.

### Traditional Programs

In addition to the above program, the bank offers a wide range of government sponsored lending programs. The primary program is the Federal Housing Administration (FHA) and Veterans Administration's (VA) guaranteed mortgages that allow consumers to borrow up to 100 percent of the property's appraised value. In these instances, the qualifying debt ratios can be as high as 41 percent. During the evaluation period, the bank originated 89 FHA loans totaling \$12.9 million. Under the VA program, the bank originated 33 loans totaling \$6.2 million. The bank is also an approved lender under the Farm Service Agency and Rural Housing Service (FSA/RHS) rural housing loan guarantees. The objective of this program is to assist households in obtaining adequate, but modest facilities in rural areas. Applicants under this program cannot have incomes that exceed the established guidelines provided by the agencies. Although these maximum incomes exceed current HUD adjusted incomes for low- and moderate-income applicants, the established levels are consistent with those published by the PRHB for qualification under the agency's own affordable housing programs. During the evaluation period, the bank originated 18 loans totaling \$1.9 million under this program.

FBPR is a certified "Certified Lender" for the U.S. Small Business Administration, and as such is able to provide expedited loan approval for the local business community. The bank originated 50 loans, totaling \$6.9 million during this evaluation period.

## **INVESTMENT TEST**

### **Scope of Test**

The investment test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) through its use of qualified investments that benefit the assessment area(s) or a broader statewide or regional area that includes the institution's assessment area(s). Activities considered under the lending or service test may not be considered under the investment test. The institution's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; and 4) the degree to which the qualified investments are not routinely provided by private investors.

### **Conclusion:**

First Bank of Puerto Rico's significant level of qualified investments reflects good responsiveness to the credit and community development needs of the assessment area. Although these investments are neither innovative nor flexible, they meet the needs of the island, and more importantly exhibit significant efforts on the part of this institution to satisfy the requirements of this performance test.

Since the previous evaluation, the bank has purchased several qualified investments, as well as retained qualified investments that were considered during prior evaluation periods. The total value of all outstanding investments is \$85.7 million, which represents 0.4 percent of assets, 1.5 percent of total investments, and 6.7 percent of equity capital.

Several investments, which were purchased as early as 1997 and still remain in the bank's portfolio, represent a portion of the Puerto Rico Housing Finance Corporation's Mortgage Trust III, Series A bonds. These funds were used to purchase mortgages in projects which qualify for Act 124 subsidies. The current market value of these securities is \$11.4 million.

Two previous investments totaling \$9 million in Puerto Rico Public Finance Corporation Commonwealth Appropriation Bonds (AFASS) were still retained by the bank during the evaluation period; however, one of these bonds matured in August 2006 just subsequent to the start of the evaluation. For this evaluation, the value of that bond will be included. The initial investments were purchased by the bank in June and December 2001 and considered as part of the prior performance evaluation. The current book value of these investments is \$9 million, as they are recorded as "zero" coupon bonds.

A prior investment in Small Business Investment Company (SBIC) remains with an outstanding balance of \$175,000.

In November 2003, the bank purchased four portions of a general obligation improvement bond (\$5.0 million) consisting of two special obligation bonds (Special Obligation Bonds Series 2003 and 2004 Series B). These bonds were issued under Act 100 to initiate several capital

improvement programs dedicated to housing construction, improvements, and subsidies throughout the island. The total value of the bond issues were \$40.0 and \$82.8 million, respectively.

In 2004, the bank purchased two portions of a general obligation improvement bond (Public Improvement Bonds of 2005, Series B for \$7.6 million and \$1.6 million respectively. The proceeds of the bonds will be used to reimburse the Government Development Bank for advances made to fund grants to qualified homeowners under Act 124. Refer to the Performance Context section of this evaluation for further explanation of Act 124 legislation. The total value of the bond issue is \$93.8 million.

In April 2006, the bank purchased \$15.0 million of a \$246 million Affordable Housing Mortgage Subsidy Program Bond (Single Family Mortgage Revenue Bonds, Portfolio X) issued by the Puerto Rico Housing Finance Authority. These bonds will be issued to finance the purchase of GNMA certificates, FNMA certificates and or FHLMC Certificates, collectively, the “Mortgage Certificates” backed by pools of qualified mortgage loans originated by mortgage lenders and made to persons and families of low income for the acquisition of qualifying properties in Puerto Rico. Under the program, mortgage loans must be originated to finance the acquisition by low-income families of newly constructed or substantially rehabilitated single family homes. Each mortgage loan underlying a Mortgage Certificate must be secured by a mortgage which constitutes a valid first lien on the property financed by such mortgage loan.

In August 2006, the bank purchased \$7.0 million of a general obligation bond (Public Improvement Bonds of 2006, Series D). The proceeds of the bond will be used to reimburse the Government Development Bank for advances made to fund grants to qualified homeowners under Act 124. Refer to the Performance Context section of this evaluation for further explanation of Act 124 legislation. The total value of the bond issue is \$24.5 million.

In September 2006, the bank purchased four separate tranches of Fannie Mae qualified mortgage backed securities. These securities are backed by mortgages originated under various Puerto Rico government programs for low-income housing. The total amount of the purchase was \$25.8 million.

A separate qualified mortgage backed security was purchased by the bank in August 2006 from Fannie Mae in the amount of \$3.1 million. This security is backed by a multi-family loan on a 72 unit rental complex in the USVI. The project was initially financed under the Federal Low-Income Housing tax credit program (LIHTC).

In addition to the aforementioned investments, the bank has contributed approximately \$786,724 in qualified grants and donations to various community organizations which serve the housing, educational, and development needs of the area. Approximately thirty one percent of these donations provide operation funding to various community groups that provide housing and social services within their respective communities; while 18 percent of the donations are in the form of educational scholarships to low- and moderate-income students, as well as other educational programs that address the needs of the underserved areas of the communities throughout the island.

## **SERVICE TEST**

### **Scope of Test**

The service test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by analyzing both the availability and effectiveness of the institution's systems for delivering retail banking services and the extent and innovativeness of its community development services. The institution's retail banking services are evaluated pursuant to the following criteria: 1) the distribution of the institution's branches among geographies of different income levels; 2) the record of opening and closing branches, particularly branches located in low- and moderate-income geographies or that primarily serve low- and moderate-income geographies or that primarily serve low- and moderate-income individuals; 3) the availability and effectiveness of alternative systems for delivering retail banking services; and 4) the range of services provided in low-, moderate-, middle-, and upper-income geographies and the degree to which the services are tailored to meet the needs of those geographies. In addition, the institution's community development services are evaluated pursuant to the following criteria: 1) the extent of community development services offered and used; 2) the innovativeness of community development services, including whether they serve low- and moderate-income customers in new ways or serve groups of customers not previously served; 3) the degree to which they serve low- and moderate-income areas or individuals; and 4) their responsiveness to available opportunities for community development services.

### **Conclusions**

#### **Bank Hours and Retail Services**

The bank's delivery systems are accessible to essentially all portions of the bank's assessment area. The hours of operation are reasonable and consistent with those maintained by other financial institutions within Puerto Rico. Many of the branches, including drive-ins within Puerto Rico, are now open on Sundays. Branches in the USVI are only open on weekdays.

First Bank of Puerto Rico operates 46 full service branches throughout the island of Puerto Rico, and 11 branches in the United States Virgin Islands. In addition, MoneyExpress operates 36 separate loan offices. The bank's service and commitment to the island continues to expand. The distribution of FBPR's branches is detailed below (Table N).



Table N - Distribution of Bank Offices by Income Category of the Census Tract				
Census Tract Income Category	Census Tracts in Assessment Area (Including USVI)		Bank Offices by Tract Location	
	#	%	#	%
<b>Low</b>	24	2.8%	1	1.8%
<b>Moderate</b>	202	23.6%	13	22.8%
<b>Middle</b>	400	46.8%	17	29.8%
<b>Upper</b>	228	26.7%	26	45.6%
<b>\$0/NA Income</b>	1	0.1%	0	0.0%
<b>Total</b>	855	100%	57	100%

The bank opened five new branches during the evaluation period, three in middle-income census tract and two in upper-income census tracts. In addition, one branch was relocated and two branches were closed.

### **Alternative Delivery Systems**

FBPR also maintains 79 Automated Teller Machines (ATMs) throughout Puerto Rico and 24 ATMs within the USVI. There is at least one ATM at each branch network, and many other ATMs at off-site locations. Many of the off-site locations are shopping centers and hospitals that are generally more accessible to a wide population of residents. Approximately 18 percent of the ATMs are located in low- and moderate-income areas. The bank's customers do not incur fees when using non-proprietary ATMs, nor are non-customers assessed a fee when using FBPR's facilities. The bank also offers telephone banking that allows customers to transfer money between accounts, make loan payments, check account balances, and obtain current rate information. Loan and credit card applications can also be processed via the telephone, and this service is available six days a week for extended hours. Internet banking services ([www.FirstBankpr.com](http://www.FirstBankpr.com)) and ([www.FirstBankvi.com](http://www.FirstBankvi.com)) allow customers to perform many of the same services as telephone banking customers, as well as providing for full bill paying services. Loan applications can be processed on-line; however, no approvals are executed via the Internet.

### **Community Development Services**

FBPR continues to demonstrate itself as a leader in providing community development services throughout the island of Puerto Rico. Through technical assistance and financial education, the bank has effectively delivered, free of charge, community development services to a large number of low-and moderate-income individuals.

FBPR employees continue to provide financial education seminars throughout the island. These educational programs are usually administered by various branch personnel, with more than 200 such seminars and financial education programs having been conducted by both the staff of the Puerto Rico branches and the USVI branches during this three year period.

In addition, below are some individual examples of the bank's further commitment to providing a wide variety of community development services.

The bank's senior vice president in charge of the construction loan department and the bank's CRA Officer are both members of the Board of Directors of San Juan Neighborhood Housing Services Corporation (SJNHS). The SJNHS is a non profit organization, whose main objective is to provide direct mortgage loans, emergency consumer loans, homeownership counseling, rehabilitation counseling, financial counseling, and construction assistance to seven low-income neighborhoods in the City of San Juan. These officers are not only members of the credit committee, providing their financial and credit expertise, but they also provide evaluations to the organization with respect to development of various projects initiated by this housing services organization.

An EVP of the bank is a member and founder of an organization established by local businesses that focus their efforts on the revitalization of the Santurce area of Puerto Rico. This officer uses his financial and organization skills to coordinate the activities and services of the community and government to support neighborhood revitalization.

One of the bank's community relations specialists works with various organizations as part of an island wide community foundation that supports entrepreneurship and micro lending programs. This individual uses her expertise in the evaluation of proposals for financial stability and feasibility.

A local branch manager, as well as a commercial credit officer, provide their financial expertise in the area of budgeting and fundraising to an organization that works with the homeless. This organization provides food, housing, job placement, and other needed services to less fortunate individuals in the San Juan metropolitan area.

Another senior vice president of the bank provides both his financial and sales expertise to the fundraising efforts of an organization that works with children suffering from abuse and abandonment.

A vice president in the bank's main office and senior executives from the bank's Virgin Islands' office are active participants with the local chapters of Habitat for Humanity. These officers provide their expertise with fundraising activities, viability of various home sites for development, as well as the selection process for assigning families to identified projects.

Another vice president of the bank provides her financial and analytical expertise in the development of programs and fundraising endeavors for a non-profit organization that serves special needs groups.

A senior executive from the Virgin Islands' office serves as an adviser to the Governor's committee on economic development, and in this capacity, he provides his financial expertise to develop business strategies that will foster job growth and economic vitality for the Islands.

A senior executive, previously identified as a participant with the local USVI chapter of Habitat for Humanity, also serves on the finance committee of an organization that provides resources to low- and moderate-income individuals and communities. In addition, this officer also is the vice president of the Island's counselors association, and in this capacity she facilitates financial literacy and home buyer education programs for qualified families.

Another vice president from the USVI office provides his expertise in credit analysis and counseling to an island wide community development foundation.

### **RESPONSE TO COMPLAINTS**

A review of FDIC records, as well as the bank's Public CRA File, revealed no complaints relating to FirstBank Puerto Rico's CRA performance.

### **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS**

The bank's record of complying with anti-discrimination laws (Fair Housing, Equal Credit Opportunity, and Home Mortgage Disclosure) is satisfactory. No violations of the substantive provisions of these regulations were identified.

## STATE

### ***CRA RATING FOR PUERTO RICO<sup>1</sup>:***

***The Lending Test is rated: High Satisfactory***

***The Investment Test is rated: High Satisfactory***

***The Service Test is rated: Outstanding***

**SCOPE OF EXAMINATION:** The scope of this examination for the island of Puerto Rico mirrors the scope as detailed throughout this Performance Evaluation.

**DESCRIPTION OF INSTITUTION'S OPERATIONS IN Puerto Rico:** FBPR maintains 46 branches and 79 ATMs throughout Puerto Rico. In addition the bank also maintains 36 MoneyExpress facilities for consumer lending.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN Puerto Rico:** The "Performance," as detailed throughout this evaluation, is the bank's performance within Puerto Rico.

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<sup>1</sup>For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation is adjusted and does not reflect performance in the parts of those states contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

## STATE

### ***CRA RATING FOR U.S. VIRGIN ISLANDS<sup>2</sup>:***

***The Lending Test is rated: High Satisfactory***

***The Investment Test is rated: High Satisfactory***

***The Service Test is rated: Outstanding***

**SCOPE OF EXAMINATION:** Although FBPR does not report HMDA loans for the Virgin Islands, a review of residential mortgage loans was performed for the period January 1, 2004 through December 31, 2005. Small Business loans are collected and reported by the bank and these loans are covered for the same period.

**DESCRIPTION OF INSTITUTION'S OPERATIONS IN U.S. Virgin Islands:** The bank maintains 11 branches and 24 ATMs throughout the Virgin Islands. All loan products offered by the bank within Puerto Rico are also offered in the Virgin Islands. One of these branches is located in a moderate-income census tract, while six are located in middle-income census tracts, with the remaining four branches in upper-income census tracts. The distribution of the USVI branches is included with the Puerto Rico branches in Table N (Page 40). Refer to this table for the distribution of these branches.

### **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN U.S. Virgin Islands:**

#### **LENDING TEST**

Overall, the bank's lending within the Virgin Islands is considered good.

FBPR originated 1,164 residential mortgage loans throughout the three islands during 2004 and 2005. Approximately five percent of these loans were originated in the three census tracts identified as low-income, with approximately six percent of the loans originated in the four moderate-income census tracts. Lending in upper-income census tracts accounts for 60 percent of the bank's residential loans. Low- and moderate-income tracts account for 22 percent of the assessment area and approximately 19 percent of the owner-occupied housing units. While the bank's percentage of lending in low- and moderate-income geographies may appear low, the high cost of housing in the Virgin Islands relative to incomes is a mitigating factor.

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<sup>2</sup>For institutions with branches in two or more states in a multistate metropolitan area, this statewide evaluation is adjusted and does not reflect performance in the parts of those states contained within the multistate metropolitan area. Refer to the multistate metropolitan area rating and discussion for the rating and evaluation of the institution's performance in that area.

Although there is no residential mortgage loan data available for comparative purposes, these percentages appear good relative to the percentage of owner-occupied housing units available during the period under evaluation. Refer to Table F1, Page 22 of this evaluation.

During this same evaluation period, the bank originated 64 Small Business Loans (Table P). In 2004, approximately 9 percent of these loans were originated in low- and moderate-income geographies, 58 percent in middle-income geographies, and 32 percent in upper-income geographies. Aggregate small business loan data for 2004 reflects that the bank's penetration (6.4 percent) in low-income census tracts far exceeded that of other lenders (1.0 percent). The bank's lending within moderate-income census tracts equaled that of the market in 2004. However, the bank's performance declined dramatically in 2005, with no small business loan originations in either low- or moderate-income census tracts.

<b>Table P – Distribution of Small Business Loans by Income Category of the Census Tract Virgin Islands</b>								
<b>Census Tract Income Level</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
	<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	1.0%	0.3%	2	6.4%	0	0.0%	2	3.1%
<b>Moderate</b>	3.2%	3.2%	1	3.2%	0	0.0%	1	1.6%
<b>Middle</b>	40.8%	43.7%	18	58.1%	10	30.3%	28	43.7%
<b>Upper</b>	24.8%	32.7%	10	32.3%	23	69.7%	33	51.6%
<b>\$0/NA Income</b>	30.2%	20.1%	0	0.0%	0	0.0%	0	0.0%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>31</b>	<b>100%</b>	<b>33</b>	<b>100%</b>	<b>64</b>	<b>100%</b>

*Source: CRA data collection (2004, and 2005), and CRA Aggregate Data*

*\* Total percentage may not add to 100 due to rounding.*

The distribution of residential mortgage lending among the various income levels of borrowers (Table Q) reflects a relatively stable performance over the past two years. The high cost of housing and the inability of families in low- and moderate-income classifications to obtain affordable housing appear to be the most significant factors. There is no aggregate data for comparison of the bank's performance against other lenders on the islands. Refer to HUD's web site at [www.huduser.org](http://www.huduser.org) for additional details on income classifications.

<b>Table Q – Distribution of Residential Mortgage Loans by Borrower Income – Virgin Islands</b>									
<b>Borrower Income Level</b>	<b>% of Total Families</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>2005</b>		<b>Total</b>	
		<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	27.8%	N/A	N/A	6	1.0%	5	0.9%	11	0.9%
<b>Moderate</b>	13.7%	N/A	N/A	19	3.2%	25	4.4%	44	3.8%
<b>Middle</b>	15.6%	N/A	N/A	64	10.8%	73	12.8%	137	11.8%
<b>Upper</b>	42.9%	N/A	N/A	501	84.3%	459	80.5%	960	82.5%
<b>\$0/NA Income</b>	0.0%	N/A	N/A	4	0.7%	8	1.4%	12	1.0%
<b>Total*</b>	<b>100%</b>	<b>N/A</b>	<b>N/A</b>	<b>594</b>	<b>100%</b>	<b>570</b>	<b>100%</b>	<b>1,164</b>	<b>100%</b>

Source: U.S. Census, HMDA Disclosure Statements (2004), HMDA LAR (2005), and HMDA Aggregate Data \* - Total percentage may not add to 100 due to rounding.

As indicated in Tables R and S, a majority (53 percent) of small business loans were in amounts less than \$250,000 and 66 percent were originated to business with revenues of \$1 million or less. Although minimal in number, FBPR was the third largest originator of small business loans in the USVI in 2004. The market in the USVI is dominated by the same lender (59 percent) as in Puerto Rico, a lender that also originates small business credit card products.

Table R – Distribution of Small Business Loans by Loan Size – Virgin Islands										
Loan Size (000s)	Similarly Situated Bank (%)		Aggregate Lending Data (% of #)		2004		2005		Total	
	2004	2005	2004	2005	#	%	#	%	#	%
≤ \$100	N/A	N/A	79.0%	74.8%	8	25.8%	8	24.2%	16	25.0%
> \$100 ≤ \$250	N/A	N/A	10.2%	13.4%	10	32.3%	8	24.2%	18	28.1%
> \$250 ≤ \$1,000	N/A	N/A	10.8%	11.8%	13	41.9%	17	51.5%	30	46.9%
Total*	N/A	N/A	100%	100%	31	100%	33	100%	64	100%

Source: CRA data collection (2004, and 2005), and CRA Aggregate Data, \* - Total percentage may not add to 100 due to rounding. NA – There were no similarly situated banks.

<b>Table S – Distribution of Small Business Loans by Gross Annual Revenues of Business – Virgin Islands</b>								
<b>Gross Annual Revenues (000s)</b>	<b>Aggregate Lending Data (% of #)</b>		<b>2004</b>		<b>20045</b>		<b>Total</b>	
	<b>2004</b>	<b>2005</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
≤ \$1,000	43.2%	50.9%	21	67.7%	21	63.6%	42	65.6%
> \$1,000 or NA	56.8%	49.1%	10	32.3%	12	36.4%	22	34.4%
<b>Total*</b>	<b>100%</b>	<b>100%</b>	<b>31</b>	<b>100%</b>	<b>33</b>	<b>100%</b>	<b>64</b>	<b>100%</b>

*Source: CRA data collection (2004 and 2005), and CRA Aggregate Data, \* - Total percentage may not add to 100 due to rounding.*

## **INVESTMENT TEST**

The bank's level of qualified investments, which consists solely of grants and donations, increased significantly since the previous evaluation and is considered adequate.

## **SERVICE TEST**

The bank provides retail-banking services through 11 branch offices that are located in St. Thomas, St. Croix, and St. John. The bank operates ATMs at each branch location and at various other sites throughout the Virgin Islands. FBPR customers in the Virgin Islands also have access to the telephone banking services described above. Additionally, the bank has established a separate website, [www.FirstBankvi.com](http://www.FirstBankvi.com), which provides information that is specific to the operations within the Virgin Islands, such as products and branch locations. As with telephone banking, customers are able to use each of the website features that were described above.

Furthermore, given the size and resources of FBPR's operations in the Virgin Islands, the bank has provided an excellent level of community development services. These services are described in more detail in the overall section of the Service Test.



## **METROPOLITAN AREAS**

*(For metropolitan areas with some or all assessment areas reviewed using the examination procedures)*

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN CSA 364**

In CSA 364, which includes MSAs 37420 and 41900, there are 55 census tracts, of which 1 (2 percent) is low-income, 8 (14 percent) are moderate-income, 35 (64 percent) are middle-income, and 11 (20 percent) are upper-income. Approximately 4 percent of the bank's loans were originated or purchased in this assessment area.

### **Conclusions with respect to performance tests in CSA 364:**

#### **LENDING TEST**

The bank's performance under the Lending Test is consistent with its overall performance. Refer to page 17 of this performance evaluation.

Approximately 4 percent of residential mortgage loans originated or purchased by FBPR during 2004 and 3 percent in 2005 were within CSA 364. Approximately 2 percent of small business loans originated or purchased during 2004 and 3 percent in 2005 were within this CSA. And finally, approximately 4 percent of consumer loans originated during 2004 and 2005 were within this CSA.

#### **INVESTMENT TEST**

The bank's performance under the Investment Test is consistent with its overall performance. Refer to page 36 of this performance evaluation.

#### **SERVICE TEST**

The bank's performance under the Service Test is consistent with its overall performance. Refer to page 38 of this performance evaluation.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN CSA 434**

In CSA 434, which includes MSAs 38660 and 49500, there are 89 census tracts, of which 2 (2 percent) are low-income, 22 (25 percent) are moderate-income, 39 (44 percent) are middle-income, and 25 (28 percent) are upper-income. There is 1 (1 percent) census tract for which no demographic data is available. Approximately 6 percent of the bank's loans were originated or purchased in this assessment area.

### **Conclusions with respect to performance tests in CSA 434:**

#### **LENDING TEST**

The bank's performance under the Lending Test is consistent with its overall performance. Refer to page 17 of this performance evaluation.

Approximately 5 percent of residential mortgage loans originated or purchased by FBPR during 2004 and 5 percent in 2005 were within CSA 434. Approximately 2 percent of small business loans originated or purchased during 2004 and 2005 were within this CSA. And finally, approximately 6 percent of consumer loans originated during 2004 and 2005 were within this CSA.

#### **INVESTMENT TEST**

The bank's performance under the Investment Test is consistent with its overall performance. Refer to page 36 of this performance evaluation.

#### **SERVICE TEST**

The bank's performance under the Service Test is consistent with its overall performance. Refer to page 38 of this performance evaluation.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN CSA 490**

In CSA 490, which includes MSAs 21940 and 41980, there are 552 census tracts, of which 18 (3 percent) are low-income, 154 (28 percent) are moderate-income, 215 (39 percent) are middle-income, and 165 (30 percent) are upper-income. Approximately 79 percent of the bank's loans were originated or purchased in this assessment area.

### **Conclusions with respect to performance tests in CSA 490:**

#### **LENDING TEST**

The bank's performance under the Lending Test is consistent with its overall performance. Refer to page 17 of this performance evaluation.

Approximately 85 percent of residential mortgage loans originated or purchased by FBPR during 2004 and 86 percent in 2005 were within CSA 490. Approximately 89 percent of small business loans originated or purchased during 2004 and 83 percent in 2005 were within this CSA. And finally, approximately 79 percent of consumer loans originated during 2004 and 79 percent in 2005 were within this CSA.

#### **INVESTMENT TEST**

The bank's performance under the Investment Test is consistent with its overall performance. Refer to page 36 of this performance evaluation.

#### **SERVICE TEST**

The bank's performance under the Service Test is consistent with its overall performance. Refer to page 38 of this performance evaluation.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN MSA 10380**

In MSA 10380 there are 64 census tracts, of which 8 (12 percent) are moderate-income, 49 (77 percent) are middle-income, and 7 (11 percent) are upper-income. There are no low-income census tracts in MSA 10380. Approximately 6 percent of the bank's loans were originated or purchased in this assessment area.

### **Conclusions with respect to performance tests in MSA 10380:**

#### **LENDING TEST**

The bank's performance under the Lending Test is consistent with its overall performance. Refer to page 17 of this performance evaluation.

Approximately 3 percent of residential mortgage loans originated or purchased by FBPR during 2004 and 2005 were within MSA 10380. Approximately 1 percent of small business loans originated or purchased during 2004 and 4 percent in 2005 were within this MSA. And finally, approximately 7 percent of consumer loans originated during 2004 and 6 percent in 2005 were within this MSA.

#### **INVESTMENT TEST**

The bank's performance under the Investment Test is consistent with its overall performance. Refer to page 36 of this performance evaluation.

#### **SERVICE TEST**

The bank's performance under the Service Test is consistent with its overall performance. Refer to page 38 of this performance evaluation.

## **DESCRIPTION OF INSTITUTION'S OPERATIONS IN MSA 25020**

In MSA 25020 there are 15 census tracts, of which 12 (80 percent) are middle-income, and 3 (20 percent) are upper-income. There are no low- or moderate-income census tracts in MSA 25020. Approximately 2 percent of the bank's loans were originated or purchased in this assessment area.

### **Conclusions with respect to performance tests in MSA 25020:**

#### **LENDING TEST**

The bank's performance under the Lending Test is consistent with its overall performance. Refer to page 17 of this performance evaluation.

Approximately 1 percent of residential mortgage loans originated or purchased by FBPR during 2004 and 2005 were within MSA 25020. Approximately 1 percent of small business loans originated or purchased during 2004 and 2 percent in 2005 were within this MSA. And finally, approximately 2 percent of consumer loans originated during 2004 and 2005 were within this MSA.

#### **INVESTMENT TEST**

The bank's performance under the Investment Test is consistent with its overall performance. Refer to page 36 of this performance evaluation.

#### **SERVICE TEST**

The bank's performance under the Service Test is consistent with its overall performance. Refer to page 38 of this performance evaluation.

## **NON-METROPOLITAN STATEWIDE AREAS<sup>3</sup>**

*(if some or all of the assessment areas within the Non-Metropolitan statewide area were reviewed using the examination procedures)*

### **DESCRIPTION OF INSTITUTION'S OPERATIONS IN NON MSA AREAS**

In the bank's non-MSA areas there are 48 census tracts, of which 6 (12 percent) are moderate-income, 35 (73 percent) are middle-income, and 7 (15 percent) are upper-income. There were no low-income census tracts in the bank's non-MSA areas. Approximately 2 percent of the bank's loans were originated or purchases in non-MSA areas in 2004.

### **Conclusions with respect to performance tests in non-MSA areas:**

#### **LENDING TEST**

The bank's performance under the Lending Test is consistent with its overall performance. Refer to page 17 of this performance evaluation.

Approximately 2 percent of residential mortgage loans originated or purchased by FBPR during 2004 and 2005 were within non-MSA areas. Approximately 1 percent of small business loans originated or purchased during 2004 and 2 percent in 2005 were within non-MSA areas. And finally, approximately 2 percent of consumer loans originated during 2004 and 3 percent in 2005 were within non-MSA areas.

#### **INVESTMENT TEST**

The bank's performance under the Investment Test is consistent with its overall performance. Refer to page 36 of this performance evaluation.

#### **SERVICE TEST**

The bank's performance under the Service Test is consistent with its overall performance. Refer to page 38 of this performance evaluation.

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<sup>3</sup>The discussion of an institution's CRA performance within a Non-Metropolitan statewide area is only required for institutions with branches in two or more states. A separate discussion of CRA performance within a Non-Metropolitan statewide area for intrastate banks that have branches in metropolitan and Non-Metropolitan areas is optional because the performance in the Non-Metropolitan areas has been reviewed and discussed in the overall evaluation of the institution. Examiners may wish to discuss in greater detail; however, the assessment areas within Non-Metropolitan areas that were reviewed using the examination procedures for intrastate banks with branches in metropolitan and Non-Metropolitan areas, or for intrastate banks with branches only in Non-Metropolitan areas.

## APPENDIX A

### SCOPE OF EXAMINATION:

<b>FirstBank Puerto Rico</b>	
<b>SCOPE OF EXAMINATION:</b> FirstBank Puerto Rico was examined in accordance with “Large Bank” CRA performance procedures.	
<b>TIME PERIOD REVIEWED:</b> Loan analysis: January 2004 through December 2005. Community development loans, investments, and services: October 21, 2003 through September 12, 2006	
<b>PRODUCTS REVIEWED:</b> HMDA (1-4 Family Residential Mortgage Loans, Refinance, Home Improvement Loans), Small Business Loans, Consumer Loans.	

LIST OF AFFILIATES AND PRODUCTS REVIEWED		
AFFILIATE(S):	AFFILIATE RELATIONSHIP:	PRODUCTS REVIEWED:
FirstMortgage	Subsidiary of FBPR	1-4 Family Residential Mortgage Loans
MoneyExpress	Subsidiary of First Bancorp	1-4 Family Residential Mortgage Loans and Consumer Loans

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA:	TYPE OF EXAMINATION:	BRANCHES VISITED:	OTHER INFORMATION:
CSA 364	Full Scope	None	None
CSA 434	Full Scope	None	None
CSA 490	Full Scope	None	None
MSA 10380	Full Scope	None	None
MSA 25020	Full Scope	None	None
Non-MSA areas (PR)	Full Scope	None	None
U. S. Virgin Islands (Non-MSA)	Full Scope	None	None

## APPENDIX B – GENERAL DEFINITIONS

### GEOGRAPHY TERMS

**Census Tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Metropolitan Statistical Area (MSA/MD):** The Metropolitan Statistical Areas have at least one urbanized area of 50,000 or more population. There are 11 instances (Boston, Chicago, Dallas, Detroit, Los Angeles, Miami, New York, Philadelphia, San Francisco, Seattle, and Washington) where a Metropolitan Statistical Area containing a single core with a population of 2.5 million or more has been subdivided to form smaller groupings of counties referred to as **Metropolitan Divisions** (One or more large population centers and adjacent communities that have a high degree of economic and social integration.) Each MD must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MD comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MDs are composed of cities and towns rather than whole counties.

**Combined Statistical Area (CSA):** The larger area of which MSAs are component parts.

**Non-Metropolitan Area:** All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

**Rural Area:** Territories, populations and housing units that are not classified as urban.



## **HOUSING TERMS**

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

## **INCOME TERMS**

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

## **OTHER TERMS**

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

## APPENDIX C - INVESTMENT DEFINITIONS

**Community Development Corporation (CDC):** A CDC allows banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Low Income Housing Tax Credits:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

**Qualified Investments:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.